

HLIB Research

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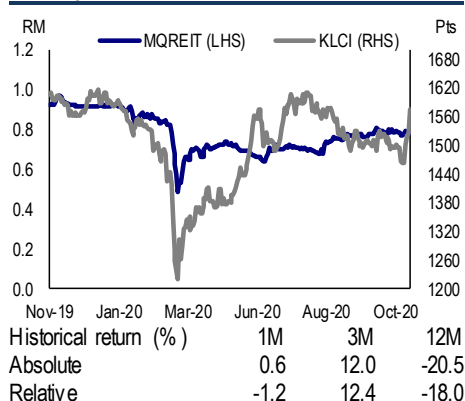
BUY (Maintain)

Target Price: **RM0.96**
Previously: **RM0.92**
Current Price: **RM0.795**

Capital upside	20.8%
Dividend yield	9.0%
Expected total return	29.8%

Sector coverage: REIT

Company description: MRCB-Quill REIT invests in office and retail buildings, business/technology parks, data processing centres, and car parking facilities primarily in Malaysia.

Share price

Stock information

Bloomberg ticker	MQREITMK
Bursa code	5123
Issued shares (m)	1,072
Market capitalisation (RM m)	852
3-mth average volume ('000)	495
SC Shariah compliant	No

Major shareholders

MRCB	27.8%
Employees Provident Fund	12.1%
CapitalLand Ltd	10.9%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PAT – core (RM m)	72.1	78.3	79.5
EPD – core (sen)	6.7	7.3	7.4
P/E (x)	11.8	10.9	10.7

MRCB-Quill REIT

Beating expectation again

MQREIT's 9M20 core net profit of RM60.3m (+12.8% YoY) was above our and consensus estimates, due to lower-than-expected total expenses and higher rental income from some of the properties. Overall, the improved showing came on the back of new tenancy and lower opex. We see resilient earnings for FY20 from these new tenants. We increase our earnings by 5-7% for FY20-22 to account for lower expenses and contribution from new tenancy. Maintain our BUY call with a higher TP of RM0.96 (from RM0.92).

Above expectation. 3Q20 core net profit of RM21.5m (+12.6% QoQ, +21.8% YoY) brought 9M20's sum to RM60.3m (+12.8% YoY). The result was above our and consensus estimates, accounting for 82% and 81%, respectively. The positive deviation was due to lower-than-expected total expenses and higher rental income from some of the properties.

Dividend. None as dividend is usually payable semi-annually

QoQ. Gross revenue was up by 4.9% mainly due new occupancies in Menara Shell as well as higher car park income in Plaza Mont Kiara. Core net profit increased 12.6% from the lower finance costs (-6.6%) and administrative expenses (-30.2%)

YoY. Top line rose by 5.4% owing to better income contribution from Menara Shell, Wisma TechnipFMC and Tesco from higher occupancies. As a result of the declining property operating expenses by 4.3% along with lower total expenses (-10.2%) and finance cost (-14.6%), core net profit showed an increment by 21.8%.

YTD. Revenue increased by 3.2% mainly due to higher revenue generated from Menara Shell, Wisma TechnipFMC and Tesco. The 12.8% increase in core net profit came from lower property operating expenses (-3.1%) and total expenses (-6.3%). The lower total expenses was mainly driven by a lower finance cost (-8.7%) and administrative expenses (-4.1%). MQREIT has benefitted from the low interest rate environment as 54% of the total borrowings are on floating rate.

Other updates. Overall occupancy rate increased marginally to 90.5% in 9M20 (FY19: 90%). As at 3Q 2020, lease negotiations for approximately 241k sq ft were concluded with 216k sq ft renewed while 25ksq ft not renewed. This translates to a total renewal rate to 90% as at 3Q 2020 with a positive rental reversion. About 130k sq ft of leases is due in 4Q and we believe chances of tenancy renewal are high due to nature of business of their tenants (big corporations and multinational companies like Shell, HSBC, DHL and etc.).

Outlook. We believe MQREIT will continue to register resilient earnings in 4Q supported by stable occupancy across its assets. We note that the current office market outlook for office REITs remains lacklustre due to unabated oversupply of office in KL city. However, we believe MQREIT will be able to sustain its earnings, at least in the near term, due to their tenancy with big corporations and MNCs.

Forecast. We increase our earnings by 5-7% for FY20-22 to account for lower expenses and higher occupancies from its properties.

Maintain BUY, with a higher of TP: RM0.96 (from RM0.92) based on FY21 forward DPU on targeted yield of 7.6%, derived from its 2 years historical average yield spread of MQREIT and 10-year MGS. We like MQREIT for its attractive dividend yield of 9.0% (highest among REITs in our universe) and its relatively more resilient earnings amid Covid-19 given minimal retail exposure unlike other mall based REITs.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	85.8	63.3	73.3	74.5	74.6
Receivables	6.7	6.3	6.4	6.6	6.6
Investment properties	2,177.6	2,143.0	2,145.0	2,147.0	2,149.0
PPE	0.3	0.4	0.2	0.1	0.1
Others	1.3	0.8	0.8	0.8	0.8
Assets	2,271.7	2,213.7	2,225.7	2,229.0	2,231.1
Payables	16.1	15.7	15.2	15.8	15.4
Debt	853.7	835.7	846.7	847.7	848.7
Security deposits	29.2	38.5	38.5	38.5	38.5
Derivatives	0.4	0.0	0.0	0.0	0.0
Liabilities	899.4	889.9	900.3	902.0	902.5
Unitholders' capital	1,235.9	1,235.9	1,235.9	1,235.9	1,235.9
Undistributed profit	136.4	87.6	89.2	90.8	92.4
Equity	1,372.3	1,323.5	1,325.1	1,326.6	1,328.3
Total Liabilities & Equity	2,271.7	2,213.7	2,225.7	2,229.0	2,231.1

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Gross rental income	155.0	144.1	151.0	154.7	155.6
Car park income	13.2	13.0	10.6	10.9	11.2
Other revenue	4.4	3.9	3.0	3.0	3.1
Total revenue	172.5	161.0	164.6	168.7	169.8
Property opex	-39.7	-39.2	-37.9	-39.6	-38.4
Net property income	132.8	121.7	126.7	129.1	131.5
Other income	1.9	-32.4	2.4	2.8	2.8
Net invest income	134.7	89.3	129.1	131.9	134.3
Manager's fee	-13.3	-12.8	-12.8	-13.0	-13.0
Trustee's fee	-0.7	-0.7	-0.7	-0.7	-0.7
Finance costs	-40.6	-39.6	-36.4	-37.7	-37.8
Other non opex	-0.9	-0.9	-0.9	-0.9	-0.9
Profit before tax	79.3	35.4	78.3	79.5	81.9
Taxation	-6.1	-6.2	0.0	0.0	0.0
Profit after tax	73.1	29.1	78.3	79.5	81.9
Core net profit	84.7	72.1	78.3	79.5	81.9
Distributable income	87.1	73.0	78.3	79.5	81.9
Consensus core net profit			74.8	75.5	76.7
HLIB/ Consensus			105%	105%	107%

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	79.3	35.4	78.3	79.5	81.9
Finance costs	40.6	39.6	0.0	0.0	0.0
Depreciation	0.1	0.2	0.2	0.1	0.1
Fair value gain of assets	5.4	36.7	0.0	0.0	0.0
Interest income	-4.3	-3.2	0.0	0.0	0.0
Others	-14.6	2.2	-0.7	0.5	-0.5
CFO	106.5	110.9	77.7	80.1	81.5
Capex	-3.8	-2.1	-2.0	-2.0	-2.0
Disposal / (purchase)	-0.2	-0.2	0.0	0.0	0.0
Others	31.7	2.7	0.0	0.0	0.0
CFI	27.6	0.4	-2.0	-2.0	-2.0
Distribution paid	-89.8	-78.0	-76.7	-77.9	-80.3
Proceeds frm borrow'g	117.0	35.0	400.0	165.0	165.0
Repayment of borrow'g	-117.0	-54.0	-389.0	-164.0	-164.0
Others	-34.6	-36.8	0.0	0.0	0.0
CFF	-124.3	-133.8	-65.7	-76.9	-79.3
Net cash flow	9.7	-22.5	10.0	1.2	0.2
Beginning cash	76.0	85.8	63.3	73.3	74.5
Ending cash	85.8	63.3	73.3	74.5	74.6

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPU (sen)	7.9	6.7	7.3	7.4	7.6
P/E (x)	10.1	11.8	10.9	10.7	10.4
EBITDA	125.4	111.8	114.8	117.3	119.8
EBIT	125.3	111.7	114.7	117.2	119.7
EV	1,620.0	1,624.5	1,625.5	1,625.3	1,626.1
EV/EBITDA (x)	12.9	14.5	14.2	13.9	13.6
DPU (sen)	8.1	6.8	7.2	7.3	7.5
Dividend yield	10.2	8.6	9.0	9.1	9.4
NTA/ share (sen)	127.3	122.7	122.9	123.0	123.2
P/ NTA	0.6	0.6	0.6	0.6	0.6
BVPS (RM)	1.28	1.23	1.24	1.24	1.24
P/B (x)	0.6	0.6	0.6	0.6	0.6
EBITDA margin	72.7%	69.5%	69.8%	69.6%	70.5%
EBIT margin	72.6%	69.4%	69.7%	69.5%	70.5%
PBT margin	45.9%	22.0%	47.6%	47.1%	48.2%
Net margin	49.1%	44.8%	47.6%	47.1%	48.2%
ROE	5.3%	2.1%	5.9%	6.0%	6.2%
ROA	3.7%	3.3%	3.5%	3.6%	3.7%
Net gearing	33.80%	34.89%	34.75%	34.69%	34.69%

Assumptions

FYE Dec	FY19	FY20f	FY21f	FY22f
Gross rental income				
Quill Building 1 - DHL 1	5.0	5.0	5.1	5.1
Quill Building 4 - DHL 2	5.4	5.4	5.5	5.6
Quill Building 2 - HSBC	9.9	9.9	10.1	10.1
Quill Building 3 - BMW	5.8	5.8	5.8	5.9
Wisma Technip	8.0	8.4	8.9	8.9
Part of Plaza Mont' Kiara	3.7	3.0	3.0	3.1
Quill Building 5 - IBM	0.0	0.0	0.0	0.0
Tesco Building - Penang	14.7	14.9	15.2	15.3
Platinum Sentral	48.3	50.2	51.7	52.0
Menara Shell	44.4	48.4	49.4	49.6
Total:	145.2	151.0	154.7	155.6

Quarterly financial summary

FYE Dec	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)
Gross Revenue	39.9	40.1	42.1	5%	5%
Property operating expen	-9.7	-9.1	-9.3	2%	-4%
Net Property Income	30.2	31.0	32.7	6%	8%
Interest income	0.7	0.5	0.6	16%	-10%
Net Investment Income	30.9	31.5	33.4	6%	8%
Total Expenses	-13.3	-12.4	-11.9	-4%	-10%
Normalised PBT	17.6	19.1	21.5	13%	22%
Normalised PAT	17.6	19.1	21.5	13%	22%
Distributable income	17.6	19.1	21.5	13%	22%
EPU (realised)	1.6	1.8	2.0	13%	22%
DPU (sen)	0.0	3.4	0.0	N.M.	N.M.

Figure #1 Quarterly results comparison

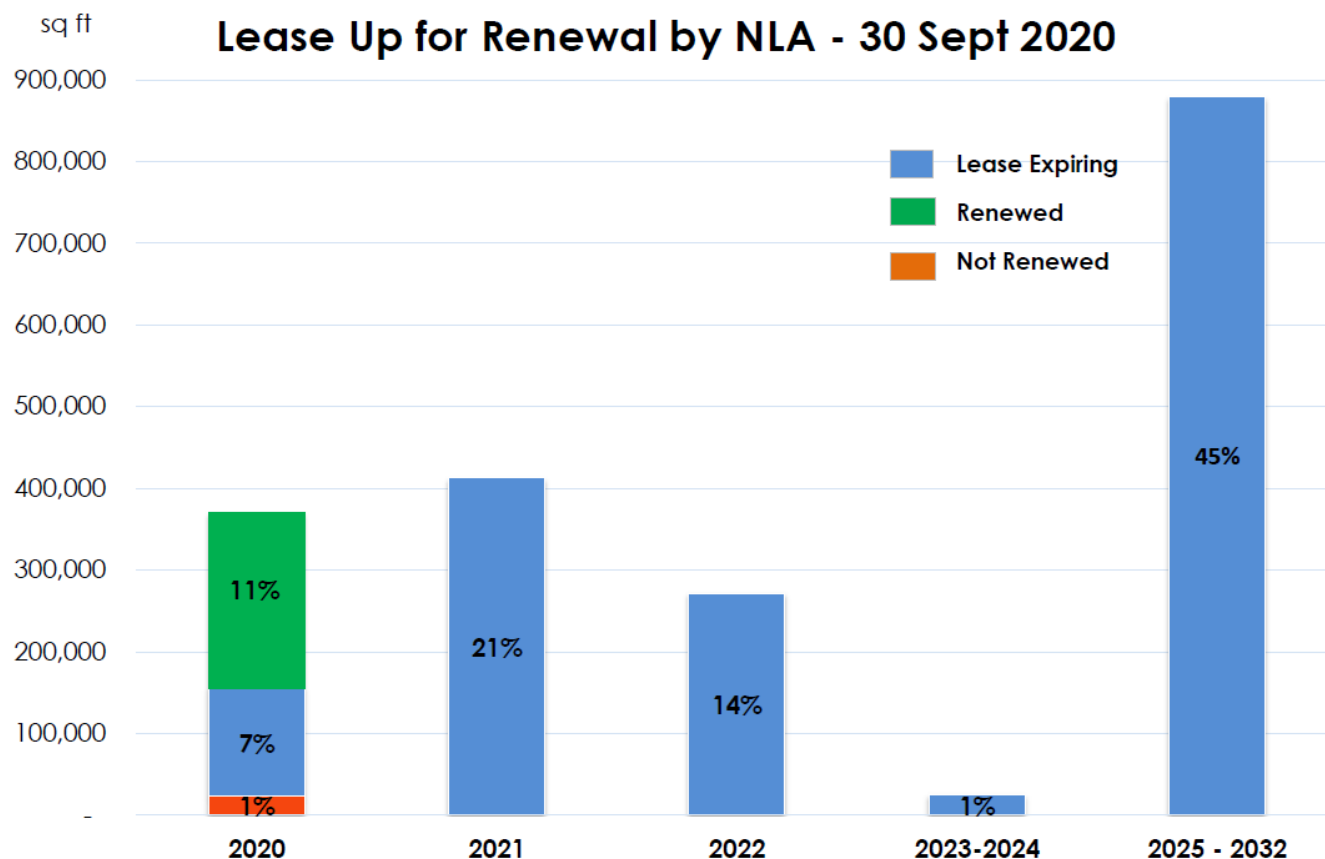
FYE Dec (RM m)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)
Gross Revenue	39.9	40.1	42.1	4.9%	5.4%	120.1	123.9	3.2%
Property operating expenses	-9.7	-9.1	-9.3	1.8%	-4.3%	-28.8	-27.9	-3.1%
Net Property Income	30.2	31.0	32.7	5.8%	8.5%	91.3	96.0	5.1%
Interest income	0.7	0.5	0.6	16.3%	-10.1%	2.1	1.8	-16.3%
Net Investment Income	30.9	31.5	33.4	5.9%	8.0%	93.4	97.8	4.7%
Manager's fee	-3.18	-3.17	-3.23	2.0%	1.6%	-9.6	-9.6	0.4%
Trustee's fee	-0.17	-0.16	-0.17	2.3%	-1.1%	-0.5	-0.5	-2.0%
Finance costs	-9.74	-8.91	-8.32	-6.6%	-14.6%	-29.3	-26.8	-8.7%
Valuation fees	-0.09	-0.09	-0.09	0.0%	3.8%	-0.3	-0.3	3.8%
Auditors' remuneration	-0.04	-0.04	-0.04	0.0%	2.6%	-0.1	-0.1	2.6%
Tax agent's fee	-0.006	-0.006	-0.016	>100%	>100%	-0.0	-0.0	N.M.
Administrative expenses	-0.03	-0.04	-0.03	-30.2%	-0.6%	-0.1	-0.1	-4.1%
Total Expenses	-13.3	-12.4	-11.9	-4.2%	-10.2%	-39.9	-37.4	-6.3%
Normalised PBT	17.6	19.1	21.5	12.6%	21.8%	53.5	60.3	12.8%
Normalised PAT	17.6	19.1	21.5	12.6%	21.8%	53.5	60.3	12.8%
Distributable adjustments	0.0	0.0	0.0	N.M.	N.M.	0.9	0.0	N.M.
Distributable income	17.6	19.1	21.5	12.6%	21.8%	54.4	60.3	10.9%
EPU (realised)	1.65	1.78	2.00	12.6%	21.8%	4.99	5.63	12.8%
DPU (sen)	0.00	3.43	0.00	N.M.	N.M.	3.43	3.43	0.0%

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Figure #2 Lease expiry profile

Lease Expiry Profile

- 19% of Total NLA due in 2020



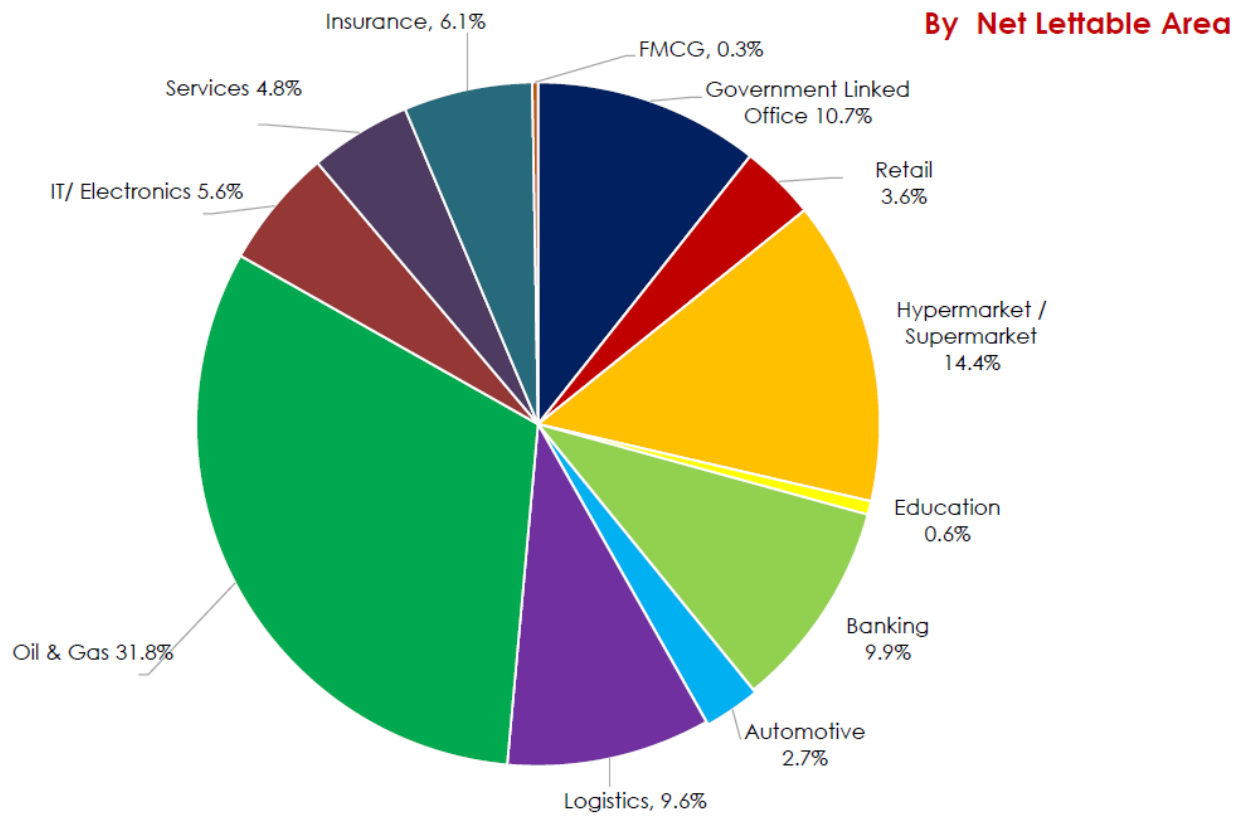
% of net lettable area that are due for renewal
MRCB-Quill REIT Presentation *November 2020*

Figure #3 Tenant Mix

Tenant Mix



Well Balanced Tenancy Mix



MRCB-Quill REIT Presentation *November 2020*

Company

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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